

BUSINESS SITUATION

Ralph W. Morris prepared the first section of this article; Daniel Larkins prepared the section on corporate profits; and Peter G. Beall prepared the section on the government sector.

THE general picture of the U.S. economy in the fourth quarter of 2000 that is indicated by the "final" estimates of the national income and product accounts (NIPAs) is little changed from that shown by the "preliminary" estimates. The final estimates reflect the incorporation of revised and newly available source data.

According to the final estimates,

- The pace of U.S. economic growth slowed slightly more than previously estimated. Real gross domestic product (GDP) increased 1.0 percent after increasing 2.2 percent in the third

quarter and 5.6 percent in the second (table 1 and chart 1).¹

- GDP growth was the slowest since the second quarter of 1995, when growth was 0.8 percent. Over the current expansion, which began in the

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

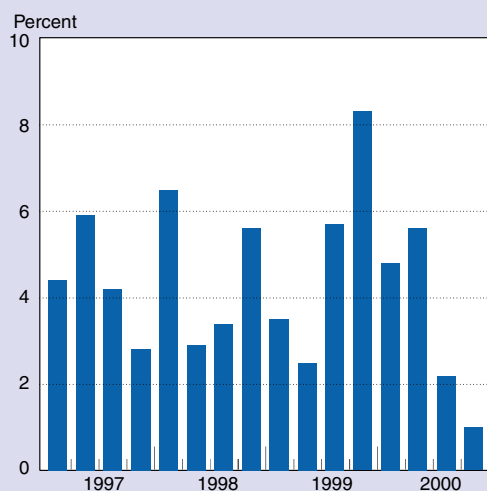
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000			
		2000				I	II	III	IV
		IV	I	II	III					IV
Gross domestic product	9,393.7	107.7	127.1	50.6	24.2	4.8	5.6	2.2	1.0
Less: Exports of goods and services	1,139.8	16.4	37.0	37.0	-19.0	6.3	14.3	13.9	-6.4
Plus: Imports of goods and services	1,581.5	40.8	63.5	61.2	-4.9	12.0	18.6	17.0	-1.2
Equals: Gross domestic purchases	9,803.2	129.5	150.7	71.7	37.2	5.6	6.5	3.0	1.5
Less: Change in private inventories	55.7	-44.3	42.0	-6.1	-16.8	.....	.....	.....	.....
Nonfarm	50.5	-40.0	39.3	-4.9	-16.9	.....	.....	.....	.....
Farm	5.3	-4.3	2.6	-1.2	.3	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	9,738.9	169.5	110.6	76.8	51.6	7.5	4.7	3.2	2.1
Personal consumption expenditures	6,373.3	112.5	47.1	69.2	43.5	7.6	3.1	4.5	2.8
Durable goods	896.0	46.4	-11.5	16.5	-7.2	23.6	-5.0	7.6	-3.1
Nondurable goods	1,887.4	26.7	16.3	21.5	4.8	6.0	3.6	4.7	1.0
Services	3,602.5	44.2	39.5	32.6	43.2	5.2	4.6	3.7	4.9
Private fixed investment	1,787.1	64.3	46.7	13.7	-4.2	16.4	11.2	3.1	-9.9
Nonresidential	1,438.3	63.5	47.2	26.3	-5	21.0	14.6	7.7	-1
Structures	293.8	13.4	3.0	9.6	7.2	22.3	4.4	14.6	10.4
Equipment and software	1,152.7	50.3	46.2	15.8	-9.7	20.6	17.9	5.6	-3.3
Residential	359.0	2.9	1.2	-10.3	-3.3	3.2	1.3	-10.6	-3.6
Government consumption expenditures and gross investment	1,589.6	-4.4	18.6	-5.5	11.4	-1.1	4.8	-1.4	2.9
Federal	550.9	-21.0	21.7	-13.0	5.1	-14.2	17.2	-9.0	3.8
National defense	353.7	-19.4	13.6	-8.9	7.5	-19.8	16.9	-9.7	8.9
Nondefense	197.1	-1.7	8.2	-4.2	-2.3	-3.3	17.8	-7.9	-4.6
State and local	1,038.1	16.2	-2.8	7.3	6.2	6.6	-1.1	2.9	2.5
Addendum: Final sales of domestic product	9,329.5	147.5	87.3	55.6	38.6	6.7	3.9	2.4	1.7

NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "Selected NIPA Tables," which begins on page D-2 in this issue.)

CHART 1

Real Gross Domestic Product



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

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second quarter of 1991, GDP has increased at an average annual rate of 3.6 percent.

- The major contributors to the fourth-quarter increase in real GDP were consumer spending for services, government spending, and investment in nonresidential structures (table 2).
- The deceleration in GDP growth from the third quarter to the fourth reflected downturns in exports, consumer spending for goods, and nonresidential fixed investment that were downturns were partly offset by an upturn in Federal Government spending and an acceleration in consumer spending for services.
- Real gross domestic purchases—a measure of domestic demand for goods and services regardless of where they were produced—increased 1.5 percent after increasing 3.0 percent in the third quarter and 6.5 percent in the second.
- Exports of goods and services—a measure of foreign demand—decreased 6.4 percent, the first decrease in almost 2 years.
- Inflation remained moderate. The prices of gross domestic purchases—a measure of prices paid by U.S. residents—increased 1.9 percent, a little less than in the preceding two quarters.
- Real disposable personal income (DPI) increased 0.7 percent after increasing 2.6 percent in the third quarter and 3.7 percent in the second.
- The personal saving rate—saving as a percentage of current-dollar DPI—was -0.7 percent, the lowest quarterly rate since 1946 (the first year for which the quarterly estimates were prepared). The third-quarter rate was -0.2 percent.

Table 2.—Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	2000			
	I	II	III	IV
Percent change at annual rate:				
Gross domestic product	4.8	5.6	2.2	1.0
Percentage points at annual rates:				
Personal consumption expenditures	5.03	2.14	2.99	1.87
Durable goods	1.79	-.42	.61	-.26
Nondurable goods	1.19	.74	.93	.21
Services	2.04	1.83	1.46	1.92
Gross private domestic investment .....	.92	3.66	.33	-.78
Fixed investment	2.68	1.93	.55	-.17
Nonresidential	2.54	1.87	1.02	-.02
Structures .....	.63	.14	.44	.33
Equipment and software	1.91	1.73	.58	-.35
Residential .....	.14	.06	-.47	-.15
Change in private inventories	-1.76	1.73	-.22	-.62
Net exports of goods and services	-.94	-1.00	-.90	-.55
Exports .....	.67	1.48	1.45	-.74
Goods .....	.46	1.37	1.54	-.84
Services .....	.21	.11	-.09	.10
Imports	-1.61	-2.48	-2.35	.19
Goods	-1.28	-2.26	-1.90	.28
Services	-.33	-.22	-.44	-.09
Government consumption expenditures and gross investment	-.18	.85	-.24	.50
Federal	-.93	.97	-.57	.22
National defense	-.86	.60	-.38	.32
Nondefense	-.07	.37	-.18	-.10
State and local .....	.75	-.12	.33	.28

NOTE.—More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

Revisions

In general, the revisions to the fourth-quarter estimates were small. The final estimate of a 1.0-percent increase in GDP is 0.1 percentage point lower than the preliminary estimate (table 3); for 1981–2000, the average revision, without regard to the sign, from the preliminary estimate to the final estimate was 0.3 percentage point.

By component, the largest negative contributors to the revision in real GDP were private nonfarm inventories (–0.15 percentage point) and exports of goods (–0.13 percentage point); the largest positive contributors were exports of services (0.09 percentage point), imports of services (0.07 percentage point), and nonresidential fixed investment (0.07 percentage point).

The downward revision to private nonfarm inventories was largely attributable to manufacturing and retail trade inventories and primarily reflected the incorporation of revised Census Bureau data on inventories for December.

The downward revision to exports of goods also reflected revised Census Bureau data for December. The upward revision to exports of services reflected revised quarterly data from BEA's international transactions accounts.

The final estimate of a 0.7-percent increase in real DPI is 0.1 percentage point more than the preliminary estimate. The upward revision to real DPI reflected an upward revision to current-dollar DPI that was mostly accounted for by an upward revision to personal interest income, primarily reflecting the incorporation of newly available data for the quarter from the Federal Deposit Insurance Corporation.

Table 3.—Revisions to Change in Real Gross Domestic Product and Prices, Fourth Quarter 2000

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	1.1	1.0	–0.1	–0.5
Less: Exports	–6.1	–6.4	–.3	–.9
Goods	–8.5	–9.9	–1.4	–3.3
Services .....	.4	3.4	3.0	2.1
Plus: Imports	–.7	–1.2	–.5	–2.1
Goods	–1.6	–2.1	–.5	–1.7
Services	4.7	4.0	–.7	–.4
Equals: Gross domestic purchases	1.6	1.5	–.1	–1.7
Less: Change in private inventories				–3.8
Farm				–.9
Nonfarm				–3.9
Equals: Final sales to domestic purchasers	2.1	2.1	0	1.9
Personal consumption expenditures	2.8	2.8	0	–.4
Durable goods	–2.8	–3.1	–.3	–.7
Nondurable goods .....	.8	1.0	.2	1.0
Services	5.0	4.9	–.1	–.8
Fixed investment	–1.3	–.9	.4	1.6
Nonresidential	–.6	–.1	.5	1.8
Structures	8.8	10.4	1.6	1.1
Equipment and software	–3.5	–3.3	.2	.6
Residential	–3.4	–3.6	–.2	–.1
Government consumption expenditures and gross investment	2.7	2.9	.2	.7
Federal	3.7	3.8	.1	.1
National defense	8.8	8.9	.1	.1
Nondefense	–4.6	–4.6	0	0
State and local	2.2	2.5	.3	.6
Addenda:				
Final sales of domestic product	1.5	1.7	.2	2.9
Gross domestic purchases price index	1.8	1.9	.1	.....
GDP price index	1.9	2.0	.1	.....

NOTE.—The final estimates for the fourth quarter of 2000 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for December.

Nonresidential fixed investment: Revised construction put-in-place for November and December and revised manufacturers' shipments of machinery and equipment for December.

Residential fixed investment: Revised construction put in-place for November and December, revised sales of new houses for October through December, and revised sales of existing houses for January through November.

Change in private inventories: Revised manufacturing and trade inventories for December.

Exports and imports of goods and services: Revised data on exports and imports of goods for December and revised international transactions data on exports and imports of services for the third and fourth quarters.

Government consumption expenditures and gross investment: Revised State and local construction put-in-place for November and December.

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for November and December.

GDP prices: Revised export and import prices for October through December, revised unit-value index for petroleum imports for December, and revised prices of single-family houses under construction for the quarter.

Gross National Product

The “final” NIPA estimates include the first estimates of gross national product (GNP) for the fourth quarter. In the fourth quarter, real GNP—goods and services produced by labor and property supplied by U.S. residents—increased 1.7 percent, 0.7 percentage point more than real GDP (table 4).² Income receipts from the rest of the world increased, and income payments to the rest

of the world decreased. The increase in receipts reflected increases in both interest income and corporate profits, and the decrease in payments reflected a decrease in corporate profits that was only partly offset by an increase in interest income.

Real GNP on a command basis, which measures the purchasing power of goods and services produced by the U.S. economy, increased the same as real GNP—1.7 percent—reflecting little change in the terms of trade (chart 2).³ In the third quarter, real GNP on a command basis increased less than

2. GNP equals GDP plus income receipts from the rest of the world less income payments to the rest of the world.

Table 4.—Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2000	2000				2000			
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product	9,393.7	107.7	127.1	50.6	24.2	4.8	5.6	2.2	1.0
<i>Plus:</i> Income receipts from the rest of the world	356.7	15.8	21.2	-4.5	8.0	21.6	28.1	-5.0	9.6
<i>Less:</i> Income payments to the rest of the world	347.7	10.8	22.1	-3.1	-7.1	14.0	29.1	-3.4	-7.8
Equals: Gross national product	9,402.2	112.7	126.0	49.1	39.4	5.1	5.6	2.1	1.7
<i>Less:</i> Exports of goods and services and income receipts from the rest of the world	1,499.0	33.0	58.9	31.4	-9.9	9.9	17.7	8.8	-2.6
<i>Plus:</i> Command-basis exports of goods and services and income receipts from the rest of the world ¹	1,523.9	24.5	65.5	23.9	-8.9	7.1	19.4	6.5	-2.3
Equals: Command-basis gross national product	9,427.1	104.2	132.6	41.6	40.4	4.7	5.9	1.8	1.7
Addendum: Terms of trade ²	101.7	-7	.4	-5	.1	-2.7	-1.6	-1.9	.4

1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

2. Ratio of the implicit price deflator for exports of goods and services and income receipts

to the corresponding implicit price deflator for imports divided by 100.

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are shown in NIPA tables 1.10 and 1.11.

real GNP—1.8 percent, compared with 2.1 percent—reflecting a deterioration in the terms of trade.

The national saving rate—gross saving as a percentage of GNP—decreased to 18.0 percent in the fourth quarter from 18.5 percent in the third. The fourth-quarter rate was the lowest since the second quarter of 1997.

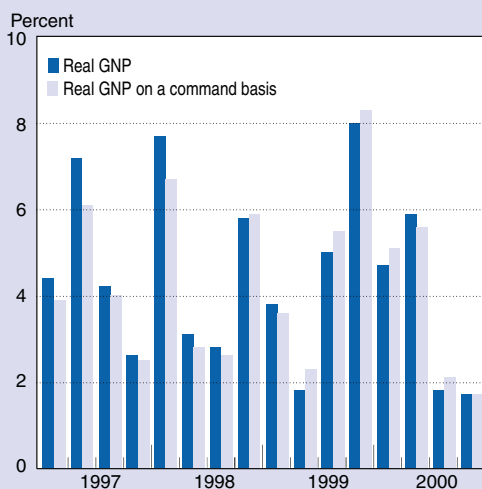
3. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

CHART 2

Real Gross National Product



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

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Corporate Profits

Profits decreased sharply in the fourth quarter. The current-production measure decreased \$55.6 billion (or 5.7 percent at a quarterly rate) after increasing \$6.7 billion (0.7 percent) in the third quarter (table 5).⁴ In percentage terms, the fourth-quarter decrease was the largest since the first quarter of 1994.

Fourth-quarter profits were reduced by a \$14.2 billion (annual rate) adjustment for tobacco "out-of-court" settlement payments to the States by tobacco companies; third-quarter profits had been reduced by a \$6.2 billion adjustment. Excluding these adjustments, profits from current production decreased 4.8 percent (quarterly rate) in the fourth quarter.

The decrease in profits from current production was more than accounted for by a sharp drop in the profits of domestic nonfinancial corporations. Unit profits of these firms plunged as a result of a record quarterly increase in unit labor costs and a large increase in unit nonlabor costs that partly reflected the tobacco payments. The drop in profits also reflected a decrease in the real product of domestic nonfinancial corporations—the first since the first quarter of 1993.⁵

In contrast, profits of domestic financial corporations increased a little, and profits from the rest of the world increased sharply.⁶ The jump in rest-of-the-world profits mainly reflected a drop in

4. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

5. Nonfinancial corporate gross product is a measure of the contribution, or value added, of nonfinancial corporations to the Nation's output and is measured as the sum of the income generated by these businesses. Consequently, the fourth-quarter decrease in nonfinancial corporate gross product partly reflected the difference between the growth of gross domestic income (GDI), which is a measure of output calculated as the sum of incomes earned in production, and GDP, which is a measure of output calculated as the sum of expenditures for final goods and services. GDI grew more slowly than GDP in the fourth quarter.

Table 5.—Corporate Profits

[Quarterly estimates seasonally adjusted]

	Billions of dollars (annual rate)						Percent change from preceding period ¹			
	Level		Change from preceding period				1999	2000	2000	
	2000	2000	1999	2000	2000				III	IV
		IV			III	IV				
Profits from current production	946.2	914.7	41.0	90.2	6.7	-55.6	5.0	10.5	0.7	-5.7
Domestic industries	805.0	755.3	33.1	60.4	-1.2	-72.8	4.6	8.1	-.1	-8.8
Financial	174.2	178.0	5.0	18.1	6.1	2.8	3.3	11.6	3.6	1.6
Nonfinancial	630.8	577.3	28.1	42.3	-7.1	-75.7	5.0	7.2	-1.1	-11.6
Rest of the world	141.2	159.4	7.9	29.8	7.8	17.3	7.6	26.7	5.8	12.1
Receipts (inflows)	203.1	207.9	21.6	33.8	-3.9	5.0	14.6	20.0	-1.9	2.5
Payments (outflows)	62.0	48.6	13.7	4.1	-11.7	-12.2	31.0	7.0	-16.2	-20.1
IVA	-12.9	-8.5	-26.1	-3.8	9.1	-4.0	.....	.....	.....	.....
CCAdj	33.5	29.1	2.2	-8.6	-5.0	-6	.....	.....	.....	.....
Profits before tax	925.6	894.1	64.8	102.6	2.6	-51.0	8.5	12.5	.3	-5.4
Profits tax liability	284.2	267.7	11.3	28.3	-1.4	-22.9	4.6	11.0	-5	-7.9
Profits after tax	641.4	626.4	53.5	74.3	4.0	-28.0	10.4	13.1	.6	-4.3
Cash flow from current production	1,004.5	1,004.5	63.1	98.2	20.1	-25.1	7.5	10.8	2.0	-2.4
Domestic industry profits:										
Corporate profits of domestic industries with IVA	771.5	726.2	30.9	69.0	3.9	-72.2	4.6	9.8	.5	-9.0
Financial	193.6	198.9	7.2	21.6	7.4	3.4	4.4	12.5	4.0	1.7
Nonfinancial	577.9	527.3	23.6	47.5	-3.6	-75.6	4.7	8.9	-6	-12.5
Manufacturing	185.0	152.4	4.2	3.4	-9.7	-39.7	2.4	1.9	-4.8	-20.7
Transportation and publicutilities	100.8	94.3	4.5	12.4	-8	-8.8	5.3	14.1	-8	-8.5
Wholesale trade	65.1	58.6	.3	8.4	1.4	-12.5	.6	14.9	1.9	-17.6
Retail trade	89.5	83.5	4.9	8.0	-6	-8.3	6.5	9.8	-6	-9.0
Other	137.5	138.5	9.7	15.2	6.2	-6.4	8.6	12.5	4.5	-4.4
	Dollars									
Unit price, costs, and profits of nonfinancial corporations:										
Unit price	1.031	1.035	0.009	0.012	0.001	0.003	.....	.....	.....	.....
Unit labor cost .....	.663	.673	.006	.004	.002	.012	.....	.....	.....	.....
Unit nonlabor cost .....	.248	.254	.002	.007	0	.007	.....	.....	.....	.....
Unit profits from current production .....	.120	.109	-.001	.001	-.003	-.014	.....	.....	.....	.....

1. Quarterly percent changes are not annualized.

NOTE.—Levels of these and other profits series are in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

payments of earnings by U.S. affiliates of foreign corporations.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$25.1 billion after increasing \$20.1 billion.⁷ The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, decreased from 74.0 percent to 72.2 percent, its lowest value since the third quarter of 1982. During 1991–99, the ratio fluctuated between 74 percent and 94 percent, and it averaged 84 percent.

6. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

7. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

Domestic industry profits and related measures.—

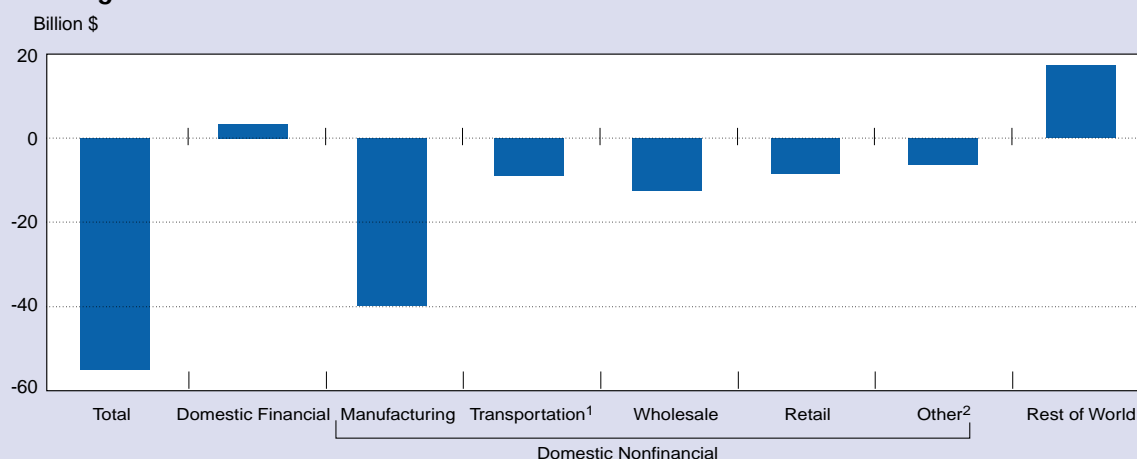
Domestic industry profits decreased \$72.2 billion after a modest increase.⁸ The decrease was more than accounted for by declines in the profits of all major categories of nonfinancial industries (chart 3). Manufacturing profits dropped the most; all of the major manufacturing industries except chemicals and allied products, decreased. The largest decrease, \$13.5 billion, was in food and kindred products; large decreases were also posted by manufacturers of “other durable goods,” “other nondurable goods,” and fabricated metal products.⁹ Profits of wholesale and retail trade decreased sharply, and profits of the transportation group

8. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D-16 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

9. “Other” nondurable manufacturing includes the tobacco, textile, apparel, paper, printing, rubber, and leather industries. “Other” durable manufacturing includes the lumber, furniture, stone, transportation equipment (excluding motor vehicles), instruments, and miscellaneous manufacturing industries.

CHART 3

Corporate Profits with Inventory Valuation Adjustment: Change from 2000:III to 2000:IV



1. Also includes communications and public utilities.

2. “Other” nonfinancial corporations includes the agriculture, mining, construction, and services industries, along with some activities included in the “finance, insurance, and real estate” group.

Note.—Based on seasonally adjusted estimates.

U.S. Bureau of Economic Analysis

and of “other” nonfinancial corporations also fell.¹⁰

Profits before tax decreased somewhat less than profits from current production. The difference between the two measures mainly reflected a decrease in the inventory valuation adjustment; the capital consumption adjustment changed only slightly.¹¹

The year 2000.—Although profits ended the year with a decrease, for the entire year, profits from current production increased \$90.2 billion (or 10.5 percent), to \$946.2 billion; in 1999, profits had increased \$41.0 billion (5.0 percent).¹² For domes-

tic nonfinancial corporations, profits increased \$42.3 billion in 2000 after increasing \$28.1 billion in 1999; profits per unit increased a little after a small decrease, and real gross product of nonfinancial corporations increased 6.1 percent, slightly more than in 1999. Profits of domestic financial corporations and profits from the rest of the world increased more than three times as much as in 1999. The increase in profits from the rest of the world was more than accounted for by an increase in receipts from foreign affiliates of U.S. corporations.

Domestic industry profits increased \$69.0 billion in 2000 after increasing \$30.9 billion in 1999; profits of both domestic nonfinancial corporations and domestic financial corporations stepped up. In nonfinancial corporations, all major groups except manufacturing stepped up; profits in manufacturing increased a little less than in 1999.

In 2000, profits before tax increased more than profits from current production. The difference between the two measures reflected decreases in both the capital consumption adjustment and the inventory valuation adjustment.

10. “Other” nonfinancial corporations includes the agriculture, mining, construction, and services industries, along with some activities included in the “finance, insurance, and real estate” group.

11. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPAs, inventory profits or losses are removed from business incomes by the inventory valuation adjustment (IVA); a negative IVA removes inventory profits, and a positive IVA removes inventory losses.

The capital consumption adjustment converts depreciation valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation valued at replacement cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For information on depreciation in the NIPAs, see Arnold J. Katz and Shelby W. Herman, “Improved Estimates of Fixed Reproducible Tangible Wealth, 1929-95,” *SURVEY OF CURRENT BUSINESS* 77 (May 1997): 69-92.

12. Changes for 2000 are calculated from *annual* levels for 1999 and 2000.

Government Sector

The combined current surplus of the Federal Government and of State and local governments—the NIPA measure of net saving by government-increased \$23.5 billion, to \$340.1 billion, in the fourth quarter after increasing \$15.5 billion in the third (table 6).¹³ The Federal Government current surplus increased more in the fourth quarter than in the third, while the State and local government current surplus changed little after increasing.

Federal

The Federal Government current surplus increased \$23.7 billion, to \$277.0 billion, in the fourth quarter after increasing \$12.4 billion in the third. A downturn in current expenditures more than offset a deceleration in current receipts.

Current receipts.—Federal current receipts increased \$17.2 billion in the fourth quarter after increasing \$34.6 billion in the third. The deceleration was more than accounted for by a larger decrease in corporate profits tax accruals. In contrast, contributions for social insurance and personal tax and nontax receipts accelerated.

Corporate profits tax accruals decreased \$19.1 billion after decreasing \$1.1 billion. The larger decrease reflected a steeper decline in domestic corporate profits before tax.

Contributions for social insurance increased \$8.8 billion after increasing \$8.4 billion. The acceleration was accounted for by contributions for social security (old-age, survivors, disability, and health insurance), which increased \$8.2 billion after increasing \$7.6 billion, reflecting an acceleration in wage and salary disbursements.

Personal tax and nontax receipts increased \$27.5 billion after increasing \$27.3 billion. Income taxes increased \$27.3 billion after increasing \$27.1 billion; “estimated income tax payments and final settlements less refunds” increased more than in the third quarter.

Current expenditures.—Current expenditures fell \$6.4 billion in the fourth quarter after increasing \$22.1 billion in the third. The downturn was more than accounted for by “subsidies less the current surplus of government enterprises,” which turned down sharply, and by grants-in-aid to State and

local governments, which was unchanged after an increase. In contrast, transfer payments accelerated, and consumption expenditures decreased less than in the third quarter.

Table 6.—Government Sector Current Receipts and Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level		Change from preceding quarter			
	2000	1999	2000			
	IV	IV	I	II	III	IV
Current receipts	3,115.4	83.2	83.0	62.8	45.4	34.4
Current expenditures	2,775.3	67.8	5.1	49.6	29.9	10.9
Current surplus or deficit(–)	340.1	15.3	77.9	13.2	15.5	23.5
Social insurance funds	118.4	8.4	3.4	–2.5	7.6	7.2
Other	221.7	6.8	74.6	15.6	7.9	16.4
Federal Government						
Current receipts	2,106.6	50.7	70.9	42.9	34.6	17.2
Personal tax and nontax receipts	1,058.4	24.5	39.8	25.6	27.3	27.5
Corporate profits tax accruals	230.3	14.5	13.4	4.8	–1.1	–19.1
Indirect business tax and nontax accruals	109.0	2.5	2.9	2.1	0	.1
Contributions for social insurance	709.0	9.2	14.9	10.3	8.4	8.8
Current expenditures	1,829.6	54.6	–21.7	37.9	22.1	–6.4
Consumption expenditures	489.2	15.7	–8.3	20.3	–9.1	–7
National defense	322.4	12.5	–13.5	14.5	–6.1	2.8
Nondefense	166.7	3.2	5.2	5.8	–3.0	–3.6
Transfer payments (net)	802.0	12.7	5.5	15.8	6.2	16.8
To persons	778.6	2.9	16.1	15.0	3.9	4.8
To the rest of the world	23.4	9.8	–10.6	.8	2.3	12.0
Grants-in-aid to State and local governments	251.2	4.8	–3.8	5.9	10.3	0
Net interest paid	254.9	–4	3.2	–4.7	–3.1	–2.3
Subsidies less current surplus of government enterprises	32.4	21.8	–18.2	.5	17.8	–20.0
Subsidies	39.3	22.4	–16.9	.8	17.5	–19.3
Of which: Agricultural subsidies	16.3	22.5	–16.8	.8	17.4	–19.4
Less: Current surplus of government enterprises	6.8	.6	1.3	.3	–4	.7
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	277.0	–4.0	92.5	5.1	12.4	23.7
Social insurance funds	118.8	8.5	3.3	–2.5	7.5	7.2
Other	158.2	–12.5	89.3	7.6	4.8	16.5
State and local governments						
Current receipts	1,259.9	37.3	8.3	25.8	21.1	17.1
Personal tax and nontax receipts	284.4	8.9	2.2	12.2	3.6	7.2
Corporate profits tax accruals	37.5	2.2	2.1	.9	–3	–3.7
Indirect business tax and nontax accruals	676.8	21.4	7.6	6.5	7.5	13.6
Contributions for social insurance	10.1	0	.2	.2	.1	.1
Federal grants-in-aid	251.2	4.8	–3.8	5.9	10.3	0
Current expenditures	1,196.9	18.1	22.9	17.7	18.0	17.3
Consumption expenditures	937.9	14.3	20.1	13.8	13.9	12.7
Transfer payments to persons	274.4	4.0	3.1	4.0	4.0	4.8
Net interest paid	–4.7	–3	–6	–4	.2	–3
Less: Dividends received by government .....	.4	0	0	0	0	0
Subsidies less current surplus of government enterprises	–10.4	.1	.3	.2	–.1	.1
Subsidies .....	.5	0	0	0	0	0
Less: Current surplus of government enterprises	10.9	0	–3	–2	.1	–.1
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	63.1	19.2	–14.6	8.1	3.1	–.1
Social insurance funds	–.4	–.1	.1	.1	0	0
Other	63.5	19.3	–14.7	8.1	3.0	–.1
Addendum:						
Net lending or net borrowing (–)	244.5	5.9	70.3	20.5	15.7	16.3
Federal Government	257.7	–4.1	92.7	2.6	13.6	17.2
State and local government	–13.2	10.0	–22.4	17.9	2.1	–.9

13. Net saving equals gross saving less consumption of fixed capital (CFC); the estimates of gross saving, CFC, and net saving are shown in NIPA table 5.1. For NIPA estimates of government current receipts, current expenditures, and the current surplus or deficit for 1998 and 1999, see NIPA tables 3.1, 3.2, and 3.3 in this issue.

1. “Net lending or borrowing” is conceptually similar to “net financial investment” in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government’s railroad retirement and veterans life insurance programs.

"Subsidies less current surplus of government enterprises" decreased \$20.0 billion after increasing \$17.8 billion. The downturn was mostly accounted for by agricultural subsidies, which decreased \$19.4 billion after increasing \$17.4 billion, reflecting the pattern of the special payments to farmers under the Agricultural Risk Protection Act of 2000.

Grants-in-aid to State and local governments was unchanged after increasing \$10.3 billion, reflecting downturns in grants for medicaid and for health and hospitals.

"Transfer payments (net)" increased \$16.8 billion after increasing \$6.2 billion. The acceleration was mostly accounted for by transfer payments to the rest of the world, which increased \$12.0 billion after increasing \$2.3 billion; these payments were boosted by the annual payment of \$2.8 billion (\$11.2 billion at an annual rate) to Israel for economic support and other payments. Transfer payments to persons increased \$4.8 billion after increasing \$3.9 billion.

Consumption expenditures decreased \$0.7 billion after decreasing \$9.1 billion. The smaller decrease was primarily the result of an upturn in defense consumption expenditures, which increased \$2.8 billion after decreasing \$6.1 billion. The upturn was largely accounted for by services, which increased \$1.7 billion after decreasing \$5.2 billion. Durable goods also contributed, increasing \$1.1 billion after decreasing \$0.4 billion; within durable goods, "other durable goods," electronics, and missiles all turned up in the fourth quarter.

Nondefense consumption expenditures decreased \$3.6 billion after decreasing \$3.0 billion. The fourth-quarter decrease was more than accounted for by an increase in sales from the Strategic Petroleum Reserve, which are treated as deductions from consumption expenditures. The Strategic Petroleum Reserve, under the "Exchange 2000" program, released 30 million barrels of crude oil, with an estimated value of \$3.9 billion (annual rate), to private business. Repayment by private business for this in-kind transaction will be made with deliveries of contracted amounts of crude oil to the Strategic Petroleum Reserve from August through November of 2001.¹⁴

14. The decrease in Federal consumption expenditures resulting from the release of crude oil from the Strategic Petroleum Reserve was offset by an increase in change in private inventories. Similarly, the repayment of this oil by private business will result in additions to Federal consumption expenditures and offsetting decreases in change in private inventories.

State and local

The State and local government current surplus decreased \$0.1 billion, to \$63.1 billion, in the fourth quarter after increasing \$3.1 billion in the third. Both current receipts and current expenditures decelerated.

Current receipts.—State and local government current receipts increased \$17.1 billion after increasing \$21.1 billion. The deceleration was more than accounted for by Federal grants-in-aid, which was unchanged after increasing in the third quarter, and by corporate profits tax accruals, which decreased more than in the third quarter. In contrast, both indirect business tax and nontax accruals and personal tax and nontax receipts accelerated.

Corporate profits tax accruals decreased \$3.7 billion after decreasing \$0.3 billion, reflecting the steeper decline in domestic corporate profits before tax.

Indirect business tax and nontax accruals increased \$13.6 billion after increasing \$7.5 billion. The acceleration reflected "out-of-court" settlement payments to the States by tobacco companies: In the fourth quarter, these payments amounted to \$14.2 billion at an annual rate; in the third quarter, these payments amounted to \$6.2 billion. In contrast, sales taxes decelerated to a \$1.8 billion increase from a \$4.2 billion increase.

Personal tax and nontax receipts increased \$7.2 billion after increasing \$3.6 billion. The acceleration was mostly accounted for by personal income taxes, which increased \$6.5 billion after increasing \$2.9 billion.

Current expenditures.—Current expenditures increased \$17.3 billion after increasing \$18.0 billion. The deceleration was more than accounted for by a deceleration in consumption expenditures and by a downturn in net interest paid. In contrast, transfer payments to persons accelerated.

Consumption expenditures increased \$12.7 billion after increasing \$13.9 billion. The deceleration was mainly attributable to decelerations in services and in nondurable goods; within services, compensation increased \$4.6 billion after increasing \$7.2 billion.

Net lending or net borrowing

"Net lending or net borrowing(-)" is an alternative measure of the government fiscal position. Net

lending is the financing requirement of the government sector and is derived as the current surplus plus the consumption of fixed capital and "capital transfers received (net)" less gross investment and net purchases of nonproduced assets.

Net lending increased \$16.3 billion after increasing \$15.7 billion. The acceleration was attributable to a step-up in Federal Government net lending, reflecting an acceleration in the Federal current surplus.

Gross investment increased \$12.9 billion after increasing \$1.7 billion. Federal Government gross investment increased \$8.5 billion after decreasing \$1.2 billion; the turnaround reflected an upturn in equipment and software investment. State and local government gross investment increased \$4.4 billion after increasing \$2.9 billion.

The Government Sector in 2000

The combined current surplus of the Federal Government and of State and local governments increased \$137.0 billion, to \$311.4 billion, in 2000. The increase was mostly accounted for by an increase in the Federal Government current surplus.

The Federal Government current surplus increased \$127.4 billion, to \$251.8 billion, in 2000. The increase in current receipts exceeded the increase in current expenditures.

Federal current receipts increased \$191.1 billion, to \$2,065.7 billion. Personal tax and nontax receipts increased \$115.5 billion, contributions for

social insurance increased \$43.1 billion, corporate profits tax accruals increased \$24.7 billion, and indirect business taxes increased \$7.9 billion.

Federal current expenditures increased \$63.7 billion, to \$1,813.9 billion. "Transfer payments (net)" increased \$36.3 billion, consumption expenditures increased \$18.4 billion, and grants-in-aid to State and local governments increased \$15.3 billion. In contrast, net interest paid decreased \$5.3 billion, and "subsidies less current surplus of government enterprises" decreased \$0.9 billion.

The State and local government current surplus increased \$9.6 billion, to \$59.6 billion, in 2000. The increase in current receipts exceeded the increase in current expenditures.

State and local current receipts increased \$87.4 billion, to \$1,230.1 billion. Indirect business tax and nontax accruals increased \$43.7 billion, personal tax and nontax receipts increased \$24.4 billion, Federal grants-in-aid increased \$15.3 billion, corporate profits tax accruals increased \$3.6 billion, and contributions for social insurance increased \$0.3 billion.

State and local current expenditures increased \$77.8 billion, to \$1,170.5 billion. Consumption expenditures increased \$63.0 billion, transfer payments to persons increased \$15.8 billion, and "subsidies less current surplus of government enterprises" increased \$0.4 billion. In contrast, net interest paid decreased \$1.5 billion. 